Testimony of
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Thank you, Mr. Chairman and Members of the Committee. I appreciate the opportunity to appear before you today to discuss agricultural trade issues.

Trade and Agriculture

Trade and U.S. agriculture are virtually indistinguishable. Fiscal 1996 was another record year for U.S. agricultural exports. Exports climbed to $59.8 billion, a gain of $3.5 billion from the previous year, and 1996 was the second consecutive year of record export growth. Today we are the world's leading exporter of agricultural products, commanding a 21 percent share of world agricultural trade. The U.S. agricultural trade surplus was $27 billion in 1996--the largest farm-trade surplus in history--making the agricultural sector the largest positive contributor to the U.S. balance of trade. Nearly one million jobs are based on agricultural exports, and agricultural sales abroad account for nearly 10 percent of total merchandise exports.

Exports are critical to nearly every sector of U.S. agriculture. Nearly one half of the wheat produced in this country is destined for export markets. Thirty percent of feed grains and cotton are shipped abroad. USDA estimates that 47 percent of the U.S. soybean crop is exported. Exports account for between one quarter and two thirds of total sales of many fruits, vegetables, and nuts. Exports are also becoming increasingly important to U.S. ranchers and livestock producers. The United States is now a net meat exporter, and six percent of this year's production of pork and ten percent of beef output will end up on the plates of foreign consumers.

Agricultural exports now account for 30 percent of U.S. farm cash receipts, and that share will increase. Agricultural output is growing faster than domestic consumption. Last year's Farm Bill--the Federal Agricultural Improvement and Reform Act--altered dramatically the government's role in agriculture. Growing world population and rising incomes mean markets for U.S. farmers and ranchers, and a pivotal role for American agriculture in realizing global food security. I agree, Mr. Chairman, with Secretary Glickman when he says that exports are the ultimate safety net for American farmers.

Fast Track and Agriculture

Trade is essential to our domestic prosperity and to our long-term economic security. It is both a pocketbook issue and a strategic issue. Over the last 4 years, trade has accounted for fully one-fourth of the growth in our GDP. Export-driven growth is one of the reasons that the American economy today is strong and sound. Unemployment is at its lowest level in 24 years -- 4.9 percent; inflation is down to a low of 2.5 percent, for the period ended April 1997; and family incomes are up significantly.

No sector has more at stake in expanding exports than agriculture. The continuing profitability and viability of U.S. agriculture -- its very future -- depends on the ability of U.S. producers to be competitive in a world market. In the face of unprecedented opportunities and challenges, continuing bipartisan collaboration between the Administration and Congress toward a bold, comprehensive export strategy will ensure America's leadership in the global food and agricultural markets of the future. We must not forget that trade policy successes create market opportunities for U.S. agriculture.

This fall, the President will seek a new grant of authority to implement global, sectoral and regional trade agreements--fast track authority. During the summer, I will consult closely with Congress and agriculture groups to develop a proposal worthy of agriculture's support.

The scope and breadth of the agricultural trade agenda ahead of us is immense. We realize this task, and that is why I have increased the resources devoted to agriculture at USTR. But resources are only part of the response. Fast track authority is critical to the Administration's efforts to expand access for U.S. agricultural exports.

We have 3 primary uses for that fast track authority:

(1) *Multilateral*. In the next three and one-half years, we will renew global negotiations in the World Trade Organization (WTO) in, among other areas, agriculture, a $526 billion global market. We will also review and try to improve upon agreements on standards, sanitary and phytosanitary barriers, customs valuation, pre-shipment inspections, and import licensing. Fast track is essential if we are going to capitalize on the additional market access opportunities presented by the full range of WTO-related negotiations.

(2) *Sectoral Efforts*. We intend to use fast track authority to negotiate agreements in sectors where the United States is most competitive. The recent Information Technology Agreement, for example, eliminated tariffs and unshackled $500 billion of trade in semiconductors, computers, telecommunications equipment and software, amounting to a $5 billion tax cut in tariffs on American exports.

(3) *Regional*. The third area in our trade agenda for which fast track is needed is to complete regional and sub-regional free trade agreements. Continuing regional initiatives present vast opportunities, particularly in Latin America and Asia, where growth and demand for U.S. exports are strong.

Fast Track Means Tearing Down Barriers to U.S. Agriculture

The Uruguay Round made hard-won gains in disciplining export subsidies, improving market access, and controlling internal price supports. But many challenges continue to stand in the way of U.S. agricultural exports. These challenges can be overcome, but not without the negotiating flexibility inherent in fast track authority.

It is essential that the United States exert leadership in area of sanitary and phytosanitary (SPS) issues. As we negotiate trade agreements that reduce tariffs, SPS barriers become more relevant, and we must guard against the increasing use of SPS concerns as today's "trade barrier of choice." More of our agricultural trade issues today involve restrictions to trade on SPS bases. The SPS Agreement under the Uruguay Round provides a framework to resolve these restrictions on the basis of sound science. As our competitors negotiate bilateral and multilateral trade agreements it is essential that the SPS portion of these agreements reflect U.S. leadership and values.

We also face regulatory hurdles that only threaten to grow and increase the barriers to U.S. farm exports. There is great interest in the EU to impose labeling and segregation requirements on agricultural products and foods containing genetically modified organisms (GMO's). GMO's hold great promise for meeting the world's food security needs, widening consumer choice, and improving the nutritional content of food. We must insure that the consumer and policy debate in Europe and other countries about the safety and benefits of GMO's is based on science and that policies adopted do not effectively reduce the access U.S. agriculture currently enjoys. Let me be clear. Extensive regulatory review and testing in the United States and other countries shows that GMO's produce safe and wholesome foods. We must have the negotiating flexibility inherent in fast track authority to argue this case.

Fast track authority is also necessary to address the more traditional trade barriers. The Uruguay Round made great strides in imposing discipline and reducing agricultural export subsidies. By the year 2000, the value of global agricultural export subsidies will be just over one-third less than when the Uruguay Round Agreements were signed. This is impressive, but more work remains. We cannot make further progress to reduce export subsidies when negotiations resume in 1999 on agriculture without fast track authority. No country will negotiate seriously with the United States if our negotiators are not operating under the authority of fast track.

A key principle under the WTO is that free trade agreements should cover "substantially all trade." In our view, this means that sensitive sectors such as agriculture must be included in any agreement. Many of the new bilateral and regional agreements we are seeing today are being written with large areas of exclusions and exemptions, particularly in agriculture because it is one of the most sensitive sectors. If some of our trading partners prevail and new free-trade agreements are written to exempt major segments of agriculture, then the trade opportunities that our farmers and ranchers hoped for will not materialize.

I have made the case for why we need fast track authority for the future. It's also important to reflect on what fast track has allowed us to achieve. Without fast track authority we never would have been able to negotiate the WTO's dispute settlement process or the SPS agreement. In cases where we feel countries are not living up to their commitments, the WTO Agreements provide us a framework to pursue our rights. This framework includes less formal options, such as bringing up an issue in one of the working committees, and the more formal, streamlined dispute-settlement process. This new process makes it easier to get a panel established and to get a panel decision adopted.

I don't believe that there is anyone in this room who believes that we would be where we are today with the EU over the use of growth-promoting hormones in livestock products were it not for the SPS and Dispute Settlement Agreements. The hormone case is not unique. We have used or are engaged in the dispute settlement process with:

- *South Korea* over shelf-life restrictions;
- *EU* over several issues including grain imports, and the region's banana import policy;
- *Hungary* over its failure to keep the level of agricultural export subsidies within its Uruguay Round commitments;
- *Japan* over its varietal testing requirements for fruit imports; and
- *Philippines* over administration of its tariff rate quota for pork and poultry.

At the recent ministerial meeting of the Free Trade Area of the Americas in Belo Horizonte, Brazil, the Trade Ministers of the participating nations agreed that FTAA negotiations should be launched at the Santiago Summit of the Americas in March 1998. To this end, the Trade Ministers established a formal Preparatory Committee which will take all the necessary steps to prepare for comprehensive negotiations early next year addressing a full range of issues including market access in agriculture.

A comprehensive trade agreement with Chile is our first step in the FTAA process. It will be viewed as a bellwether for our plans in the region. Chile is symbolic of both the opportunities in the region and the region's rising strategic significance to our longer-term economic interests. U.S. exports to Chile are up 148 percent since 1990. Chile is a leading reformer in Latin America. Without fast track, the United States will not be positioned to conclude an agreement with Chile, and the longer our promise remains unfulfilled, the more likely that Chile will form alternative alliances in the hemisphere in place of the United States, and American agriculture will suffer.

Regional Trade Agreements Leave U.S. on the Sidelines, Threaten U.S. Leadership

America's farmers and ranchers are not alone in seeing the future in exports. All of our major competitors--the EU, Canada, Australia, Brazil and Argentina--are moving aggressively to develop foreign markets, often through preferential trade agreements. The United States risks being placed on the sidelines of global farm trade as our competitors secure access to markets at the expense of the United States. The Uruguay Round made hard-won gains; now is not the time to lose these market-oriented successes to our competitors as they lock in markets through bilateral and multilateral agreements that exclude the United States.

We must recognize the dangers of inaction. In every region, but particularly Asia and Latin America, the two fastest growing regions of the world, our competitors are pursuing strategic trade policies and, in some cases, preferential trade arrangements that will open up markets for their exporters, their products, their workers, their farmers. In short, in this post Cold War global economy countries are creating new exclusive trade alliances to the potential detriment of U.S. prosperity.

Increasingly, the rules are being written without us. Unless we are in a leadership role, our vital economic interests may be compromised. We must maintain strong, consistent influence in these critical regions. Without that presence, nations will look elsewhere for their opportunities and long-term economic alliances. Examples already abound:

In the Asia-Pacific region, competition comes from many sources. Competition within Asia is the most intense. ASEAN--the Association of Southeast Asian Nations--has some of the fastest growing economies in the world. It is a region where China, Japan, Korea and the EU are focusing competitive energies. Argentina's President Menem recently suggested a MERCOSUR - ASEAN free trade area -- an agreement that would encompass over 600 million people and two of the most important emerging markets in the world. We simply cannot underestimate the impact of these efforts on our global export competitiveness.

In South Asia, the seven members of the South Asian Association for Regional Cooperation (SARC) -- India, Pakistan, Bangladesh, Nepal, Bhutan, Sri Lanka, and the Maldives -- just announced that they were accelerating their target date for the creation of free trade area, setting a deadline of 2001. SARC now represents only about 1 percent of world trade, but it encompasses roughly 20 percent of the world's population. Indifference to its development can only harm our economic security.

The large, protected internal market of the EU is very attractive to the countries of eastern Europe, and the EU is actively negotiating association agreements with these countries. Many of these countries are surplus agricultural producers. Tighter commercial relations with the EU could harm U.S. agricultural exports as the EU seeks to accommodate the trading needs of eastern Europe.

No where does the rush to expand trade agreements affect U.S. agriculture more than in Latin America. The region is home to two major competitors for agricultural exports--Argentina and Brazil. Brazil, along with a host of other countries in the region, also holds great promise as a major market for U.S. exports.

The United States is competitive in the region, and our agricultural exports in FY 1996 reached just under $10 billion. The region accounts for about one fifth of our total farm sales, and prospects for growth are good for both bulk commodities, and for high value products throughout the region. The United States' competitive position in the region is threatened, however, by a strong push for regional trade agreements.

MERCOSUR (Argentina, Brazil, Paraguay, Uruguay) is a developing customs union with a GDP of over $1 trillion and ambitions to expand to all of South America. MERCOSUR is the largest economy in Latin America and has a population of 200 million. It has struck agreements with

Chile and Bolivia, and is discussing agreements with a number of Andean countries (Colombia, Venezuela) as well as countries within the Caribbean Basin and Canada. The MERCOSUR ambition is in part driven by the decades old vision of a Latin American free trade area, but also by a clear strategic objective regarding commercial expansion and a stronger position in world affairs.

No country in Latin America has been more aggressive in seeking trade agreements than Chile. It has concluded agreements with MERCOSUR, Mexico, Colombia, Venezuela, Ecuador, Bolivia and Canada. It intends to start similar negotiations with Central America, it has an eye toward agreements with Asia, and the EU has concluded a framework agreement with Chile that is set up to lead to a free trade agreement. In fact, Chile has or is negotiating preferential bilateral trade agreements with all its major trade partners in the Western Hemisphere except the United States. The United States may soon find itself as the only major country in the Western Hemisphere that does not have preferential access to the Chilean market

Chile's most important bilateral agreement came in June 1996 when it became an associate member of MERCOSUR. The agreement between Chile and MERCOSUR provides for the gradual elimination of tariff trade barriers. Chile will retain its price band system for imports of vegetable oils, sugar, wheat, and wheat flour from MERCOSUR countries, but Chile's tariffs on these commodities will eventually drop to zero after a phase in period which begins in 2006.

The consequences of these developments in Latin America for American agriculture are real, not theoretical:

- On a host of important U.S. bulk agricultural exports, our producers face tariffs of 8 percent to 20 percent on shipments to MERCOSUR, and as high as 45 percent on some processed products, while MERCOSUR members trade duty free amongst themselves on most products.

- When Chile's trade agreements are fully implemented, U.S. agricultural exporters will face, in addition to the price band system for the four commodities I mentioned a moment ago, an 11-percent tariff hurdle vis-a-vis exporters from MERCOSUR and many other nations in the hemisphere.

- The Washington Apple Commission and the Oregon-Washington-California Pear Bureau have identified Columbia, Venezuela, Peru and Ecuador as potential growth markets. But these countries currently impose import duties of 15 percent to 25 percent on U.S. apples and pears while imports from Chile face little or no duty.

- Chile's bilateral agreement with Ecuador has put U.S. wine at a considerable disadvantage. U.S. wine faces a 25 percent tariff versus no duty for Chilean wine.

- Venezuela's membership in the Andean Pact and bilateral agreements with Chile and Argentina disadvantage several U.S. commodities, including soybeans and products; fresh and processed fruits; and wine. The value of these exports to Venezuela was just over

$110 million in FY 1996. U.S. soybeans and products face variable import levies starting at 15 percent to 20 percent; fresh and dried fruit face a 15 percent duty and U.S. wine in Venezuela has a 20 percent import tariff. Imports of these products from members of the Andean Pact and/or Argentina and Chile face minimal duties in comparison. If U.S. products received the same preferences, the market share of U.S. agricultural products in Venezuela would increase substantially.

Trade Agreements Preserve Benefits

We should also recognize that trade agreements with the United States as a full partner do more than forestall an advantage for our competitors. Trade agreements also preserve benefits. After a $1-billion increase in U.S. agricultural exports to Mexico in 1994, a devaluation of Mexico's peso and economic recession in 1995 threatened longterm damage to the U.S. market. Were it not for the North American Free Trade Agreement (NAFTA), U.S. exports faced a repeat of the scenario following a similar economic shock in Mexico in 1982: a precipitous drop in exports followed by years of recovery.

During that earlier crisis, Mexican officials were not bound by NAFTA, or by the GATT. As a consequence, they were free to impose strict licencing requirements and prohibitively high duties on American products. This is exactly what they did. Mexico's response to the 1995 crisis could not have been more different. Instead of raising barriers to U.S. products, Mexico continued to adhere to its commitments and reduce tariffs on schedule. Additionally, because of preferential access for U.S. products, the initial blow of the crisis fell more on other countries that compete in the Mexican market. As Mexico's financial situation began to stabilize and its economy slowly gained strength, U.S. exports could recover, benefiting from progressively increased access, including two new rounds of tariff cuts, rather than being impeded by a new set of trade restrictions.

Conclusion

We cannot stand by idly. U.S. leadership is essential if we are not only to maintain, but enhance our competitive position. We must use every tool in our arsenal, supplemented by fast track authority, to ensure that the rules that emerge from this process of rapid economic integration, reflect our interests and our values.

Every President since 1974, Democrat and Republican, has had the authority to negotiate new trade agreements. With renewal of fast track authority, we can continue to open new opportunities for agriculture; without it those opportunities may not be there. With fast track, we can maintain the U.S. leadership role in initiating and writing new agreements; without it, others will write the rules. With fast track, we can maintain a major role in determining the future of trade here in our own hemisphere. Without it, others will forge new bonds of trade, while the United States sits on the sidelines.

Without fast track, we could find ourselves in the marketplace of the 21st century playing by European, or Asian, or Latin American rules, and it is very unlikely that these rules would be written to substantially expand market access opportunities for U.S. agriculture.

I look forward to working with you on our trade agenda for the 21st century and the enactment of fast track legislation this year.